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September 11, 1975

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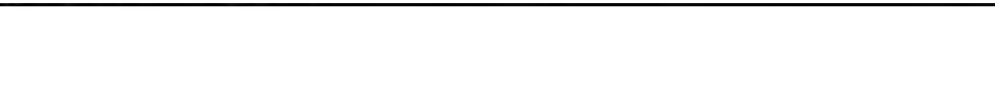
September 11, 1975

CONTENTS

PORTUGAL: Influx of refugees from
Angola putting strain on government 1

PORTUGAL-AZORES: Likelihood of
armed rebellion lessening 3

25X1



LEBANON: Army to create and
man a buffer zone between religious groups 7

25X1

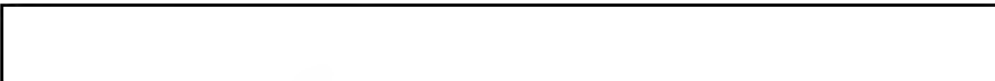


ETHIOPIA: Country tense on eve of
first anniversary of military take-over 9

TURKEY: Implications
of US arms cutoff 10

LAOS: Pathet Lao pressuring Souvanna
and King Savang to step down 11

25X1



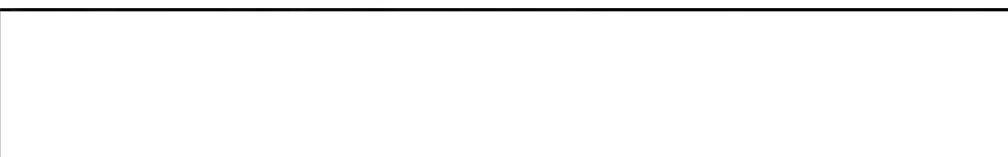
CHINA: Criticism of "Water
Margin" continues 13

25X1



USSR: Moscow turning more to Eurodollar
market to finance trade deficit 16

25X1



25X1



National Intelligence Bulletin

September 11, 1975

PORTUGAL

The influx of refugees from Angola is putting an increasing strain on the government and is already changing the political equation.

Only 75,000 of an expected 375,000 Portuguese have been repatriated so far, with the remainder awaiting transportation out of the embattled colony before November 11, the date scheduled for Angolan independence. The refugees are bitter over the loss of their homes and the disruption of their lives and careers and, for the most part, blame pro-Communist elements in the government and military for their plight.

The Portuguese government has promised the refugees assistance in the form of unemployment payments, medical benefits, and family allowances. Despite the optimistic outlook of the government organization charged with dispensing the assistance, the mechanism is breaking down under the heavy load. There is a daily influx of between 1,500 and 2,000 refugees, and this number will increase as international assistance in the airlift is geared up.

The government is trying to deal with the expected discontent of the refugees by moving them as quickly as possible through the processing center and providing free transportation to their original villages. In addition to relying on the traditionally strong family ties to provide the bulk of assistance, the government has encouraged the press to adopt a policy of studied neglect of refugee problems in the hope of lowering the refugees' political awareness and the public's level of concern.

This policy of dispersion already appears to be backfiring. Most of the refugees are originally from northern Portugal where relatives, faced with new burdens and limited resources, have quickly adopted the refugees' cause. Thus, northern Portugal, already out of tune with Portugal's revolutionary leadership, has become a hotbed of discontent.

The refugees have begun to organize and have already demonstrated that they have fewer inhibitions about resorting to violence than their fellow citizens. Several rallies and demonstrations have erupted into violent confrontations with counterdemonstrators or security forces, and refugees participated in many of the attacks on Communist offices in the north. These developments give only a small hint of the eventual impact the 375,000 embittered refugees will have on this nation of approximately 9 million.

One refugee leader reported that refugees in northern Portugal had planned a "national uprising," but did not carry it out because "highly placed" officers had asked that they be patient and that such an action might interfere with the plans of anti-Communist officers. If conditions do not improve, however, the refugees' patience will soon wear thin.

National Intelligence Bulletin

September 11, 1975

In the short term, the effect has been and will continue to be to give support to the anti-Communist faction within the military and to the democratic parties. But unless these groups are able to deal significantly with the refugees' problems—and that seems doubtful—they will become a volatile element in Portugal that will create further instability.

Portugal is already faced with rising unemployment and other serious economic problems. The influx of the refugees will swell the unemployment rolls, place a greater strain on housing, medical, and educational facilities, and even add to Portugal's balance-of-payments deficit by requiring greater imports of food and other consumer items. The anti-Communist military faction of Melo Antunes and the Socialist Party of Mario Soares have argued that they are best able to attract needed foreign assistance to deal with Portugal's failing economy.

If they are unable to follow through and make some substantial progress in dealing with those problems, the effect will be to create a climate conducive to a power move by either the extreme right or extreme left. Even now, for instance, the refugees represent a growing pool of manpower that might be used by former president Spínola in a move to return himself to power.

25X1

National Intelligence Bulletin

September 11, 1975

PORTUGAL—AZORES

Gains by the anti-communist forces in Portugal, coupled with improved prospects for local autonomy, now seem to have lessened the likelihood of an armed rebellion in the Azores.

Sources have told the US consulate in the Azores that they believe the independence movement has peaked and that steps under way in Portugal to reduce Communist influence on national policy will also largely disarm the separatist movement.

These sources point out that the Azorean Liberation Front missed a unique opportunity to move when pro-communist former prime minister Vasco Goncalves was still in power. Now, not only has Goncalves been effectively removed, but also local targets, such as the Communists and unpopular local officials, have been scattered and no longer represent a visible threat to Azorean aspirations.

The independence movement has been spurred on principally by fears of the politically conservative Azoreans that a Communist take-over in Lisbon would lead to Communist domination of the islands themselves. In recent weeks, local Communists have been physically attacked and their property has been destroyed. Some have even been deported, ostensibly for their own safety.

Aside from the anti-communist sentiment, other factors fueling the independence drive have been the Azoreans' desire for greater autonomy, economic inequities between the islands and Portugal, and a lack of understanding of Azorean problems in Lisbon.

Such traditional discontent could be substantially overcome if the recently formed governing junta, made up of prominent Azoreans, is allowed to function without undue interference from the mainland. The junta, which is headed by the locally popular and politically skillful military governor, General Altino de Magalhaes, has been asked to set up a new permanent government for the archipelago. It has been given a generous budget, which should effectively help to counteract charges of economic neglect.

General Magalhaes, who has just completed an inspection tour of the islands, said that most Azoreans now realize that independence would create serious problems and they have come to fear it. He also said that most of his troops no longer support a rupture. The general admitted that he has been conducting a campaign to educate Azoreans at all levels of society concerning "the folly of independence."

National Intelligence Bulletin

September 11, 1975

General Magalhaes' assessment of the sentiment now opposed to independence may be exaggerated, but there is little doubt where he himself stands on the issue. The support of principal Portuguese officers like Magalhaes seems essential for a successful revolt, but there remains a possibility that such an attempt could still be made by independence zealots, who have been planning such a move for months. The likelihood of even this seems to have declined along with the fortunes of the Communists in Lisbon, but the separatists will likely be quick to react if there is yet another reversal of political trends in Portugal.

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Approved For Release 2007/03/06 : CIA-RDP79T00975A028100010016-2

National Intelligence Bulletin

September 11, 1975

LEBANON

Prime Minister Karami announced last night that the 17,000-man Lebanese army has been ordered to create and man a buffer zone between Muslim and Christian strongholds in northern Lebanon. The zone will separate the Tripoli district, which is 78 percent Sunni Muslim, from the adjoining Zagharta district, which is 90 percent Maronite Christian.

The army will seek to avoid being drawn into the fighting by staying out of the metropolitan areas of Tripoli and Zagharta, where security will remain the responsibility of the Lebanese internal security forces. The army will, Karami explained, "separate the combatants if fighting breaks out again."

In reality, the fighting—although sharply reduced—has not yet stopped, and army units are sure to suffer some casualties while moving into position.

Use of the army, which Christians had advocated during three days of cabinet debate, was made possible when President Franjiyah gave in to Karami's demand that army commander Iskandar Ghanim be replaced. The new commander is General Hanna Said, formerly commander of a military region in eastern Lebanon.

Said, like Ghanim, is a Maronite Christian. He has generally supported centrist Christian and Muslim politicians who over the years have been at odds with the more conservative Franjiyah and Interior Minister Shamun. His appointment thus is a compromise between Christians and Muslims.

The cabinet statement issued last night offered no hint that Karami had achieved his second goal, the creation of a joint Muslim-Christian "command council" to oversee activities of the army commander.

Karami announced that the cabinet had decided to use the army after having made "contacts with the disputing parties." The Muslim and Christian factions that have been fighting in the Tripoli area probably were receptive to such a proposal. Both have suffered heavy casualties, and—because they had not been resupplied by the major fedayeen groups or the large Christian militias—are short of ammunition.

According to the US embassy in Beirut, Karami yesterday also sought the acquiescence of Palestine Liberation Organization chairman Yasir Arafat. Arafat and leftist Lebanese leaders like Kamal Jumblatt probably will go through the motions of condemning Karami, but they are not likely to take up arms against the army. At present, even the major Palestinian and leftist leaders have an interest in avoiding more serious fighting in Lebanon.

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National Intelligence Bulletin

September 11, 1975

ETHIOPIA

Addis Ababa and Asmara are reported to be tense as the Ethiopian Provisional Military Government prepares for the celebration on September 13 of the first anniversary of its ouster of Emperor Haile Selassie. The ruling military council has already reinforced the garrison in Asmara, the capital of Eritrea Province, where rebel separatists are operating, and will maintain maximum security both there and in Addis Ababa.

25X1 [redacted] the military rulers may proclaim a republic—a move foreshadowed last March when they revoked their earlier appointment of Haile Selassie's son as king. The US embassy has also had reports that the government will drop the "provisional" from its title, a move that might spark opposition from students and others who want a return to civilian rule. Whatever is announced, Major Mengistu and Lieutenant Colonel Atnafu, who emerged during the past year as the key council members, will probably continue to wield effective power.

Some top level military officers and Defense Ministry officials may be retired this weekend—in part to provide job openings for ambitious young officers.

Some fairly extensive structural changes may also be in the offing. The council is under pressure to give the appearance of doing something to promote a settlement in Eritrea and may announce a regrouping of the present 14 provinces into fewer units based on ethnic considerations, as a first step toward fulfilling its pledge to permit greater local autonomy. There are also reports that the establishment of a mass political party will be announced.

Many Ethiopians also anticipate that the council will announce the fate of the surviving members of the royal family and other persons connected with the old regime, who have been prisoners for over a year. Several members of the royal family were recently moved to the austere prison quarters where 59 political prisoners were executed in November 1974. This has stirred fears for the safety of the royal family.

The royal family members and other prisoners pose no threat to the military government; there seems a good chance that the council will avoid focusing attention on them during the anniversary weekend for fear of adding to tensions.

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National Intelligence Bulletin

September 11, 1975

TURKEY

Bilateral Turkish-US defense relations will be affected regardless of whether Congress reverses or sustains its current position.

Should aid not be resumed, the US embassy in Ankara believes that the Turks will retaliate by evicting US military mission personnel, and imposing more restrictive customs and administrative controls on remaining US operations. The Turks would be expected to retain only the special weapons sites, the F-4 Phantom squadron at Incirlik, and the two NATO headquarters at Izmir.

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With respect to foreign and military policy, the embassy expects that initially the Turks will wish to remain in NATO, even though they would accelerate efforts to improve relations with countries outside the alliance. Various pressures, such as NATO's inability to support Turkey strongly on the Cyprus issue or to meet arms requirements, could gradually push the Turks closer to non-NATO countries, including Iran, various Arab and third-world nations, and perhaps the USSR.

If the embargo is lifted, the US still would not be able to retain the close relationship with Turkey that previously existed, according to the US embassy. The Turkish government would probably continue many of the present restrictions on US military activities while it pushes for a new defense cooperation agreement. In any such agreement, the Turks would seek guarantees against a future embargo and try to settle, in their favor, many long-standing issues relating to the US presence in Turkey. These could include such actions as posting Turkish commanders at US installations and increasing taxes on US operations and personnel.

Despite the strains that would remain, the termination of the embargo would enable the US to begin rebuilding relations with Turkey and inhibit Turkish contemplation of a drift away from NATO. The threat of Turkey following the French or Greek lead in NATO would not be removed, but it would be significantly reduced.

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National Intelligence Bulletin

September 11, 1975

LAOS

The communists are stepping up the pressure against Prime Minister Souvanna Phouma and King Savang. The two clearly have no place in the communist state that has been developing in Laos since last spring. The Pathet Lao up to now, however, have treated both the monarchy and Souvanna, the symbol of "coalition" rule, with circumspection, perhaps out of concern that any early or abrupt moves might needlessly damage the Lao communist reputation abroad and even provoke some internal opposition. In any case, it now seems likely that both Souvanna and the King will be forced from their posts by next spring if they have not resigned earlier.

In a broadcast on September 9, Pathet Lao - controlled Radio Vientiane reported that in an interview with an AFP correspondent, Prime Minister Souvanna Phouma stated he would not be joining a new government following the "general elections" scheduled for April 1, 1976. Souvanna indicated that he would rather retire and advise his "younger successors."

Souvanna several times in the past has indicated to foreign newsmen that he would retire after the general elections, but his remarks received little notice in the government media. By replaying this latest interview, the communists presumably hope to make it difficult for him not to carry out his promise.

Souvanna almost certainly hopes that his half brother Souphanouvong will be the next prime minister. He maintains that Souphanouvong is more of a "nationalist" than a communist. The Pathet Lao, however, have offered few hints on their choice. The selection in any case will have little significance, because real power will rest, as it does now, with the Lao Communist Party headed by Kaysone Phomvihan.

The communists have also begun to whittle away at the prestige of King Savang in an apparent effort to force his early abdication or perhaps scrap the institution of the monarchy altogether. At a recent festival in Luang Prabang, the royal capital, for example, the communists cut back on some of the formalities designed to pay homage to the King and eliminated his traditional interviews with the diplomatic corps.

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National Intelligence Bulletin

September 11, 1975

CHINA

An article in China's second leading daily newspaper strongly suggests that some factions are using the current criticism of the ancient Chinese novel "Water Margin" as a means of expressing opposition to Chairman Mao.

The article, published on August 30, seems to make a vigorous defense of Marshal Lin Piao, who fell from power after an abortive coup attempt in 1971. Using historical analogy, the article praises a marshal who attempted to seize the imperial throne by force. Lin is the only one of China's ten marshals ever accused of attempting to overthrow Mao. The article, which calls the historical figure a "hero" for defying the emperor, is almost certain to be read in China as a defense of Lin's action and a call to oppose Mao.

The emperor figure has been used in Chinese propaganda for the last two years as a surrogate for Mao, and the need to oppose the emperor has been a common feature of several of the articles criticizing "Water Margin."

Articles such as these suggest that the main protagonists in the criticism of the novel are Mao and some elements in the military. Since the fall of Lin Piao, Mao has been persistent in his efforts to purge several military men who, he apparently believes, were in league with Lin and who may be harboring pro-Soviet tendencies. At least some of the articles calling for opposition to the emperor may be an attempt by the military to stave off yet another move against them by the Chairman.

Mao's own view seems to be represented by a *People's Daily* editorial of September 4 that calls the criticism of the novel a study in "capitulationism" and makes specific reference to capitulating to the Soviet Union. The "national capitulation" theme seems aimed at the military. Last year's anti-Confucius propaganda appeared to accuse unspecified military figures of advocating a less contentious policy toward Moscow.

Unlike the other articles, the editorial claims that Mao began the criticism of the novel. It also seems to dampen the current criticism by relegating the literary debate to a discussion movement and calling for unity. Since the publication of the editorial, in fact, the national media have said very little about the novel.

The article that seems to defend Lin Piao was not picked up by Radio Peking or disseminated by the official Chinese news agency. Moreover, even one of a series of articles on "Water Margin" published in the party theoretical journal, *Red Flag*,

National Intelligence Bulletin

September 11, 1975

was recently broadcast not from Peking but from Shanghai. This strongly suggests that some elements in the leadership would like to keep the "Water Margin" debate from blossoming into a full-scale campaign, thus jeopardizing the year-long effort to establish unity and stability in the country.

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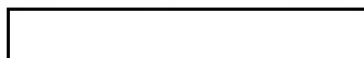
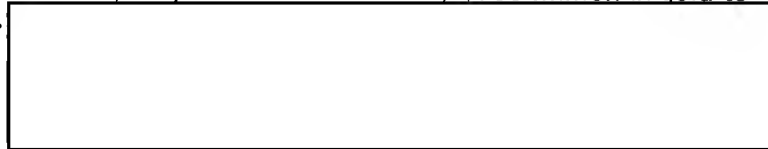
September 11, 1975

USSR

Moscow is turning more and more to the Eurodollar market to finance a hard-currency trade deficit that could run as high as \$3 billion this year. The First National City Bank of New York has agreed to arrange a five-year, \$400-million Eurodollar financial credit for the Soviet Foreign Trade Bank. Other US banks also are likely to participate in the consortium loan, which will carry an interest rate of 1.25 percent above the London interbank rate, currently over 8 percent for six-month deposits. The loan will not be tied to any specific purchase.

If the loan materializes, it will be the fourth time in the last ten months that Moscow has tapped the Eurodollar market. The \$800 million raised by the four loans will reduce the pressure on Moscow to sell gold in a market depressed by the International Monetary Fund's decision to reduce its gold holdings.

If the Soviets use the Eurodollar loans this year, in addition to an estimated \$1.5 billion in net import credits, they will need to sell only \$700 million in gold to cover a \$3-billion deficit.



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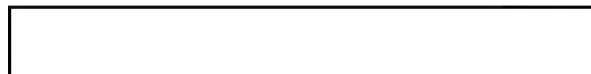
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